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SUBJECT: SAKHALIN-KHABAROVSK-VLADIVOSTOK PIPELINE PLANNED FOR 2011

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Summary

1. Gazprom has announced plans for a pipeline from Sakhalin to Vladivostok that will begin pumping natural gas from the island to the Asia-Pacific region in 2011. The pipeline will also provide gas to the Khabarovskiy and Primorye regions, and may connect with the proposed trans-Korean gas pipeline, which is scheduled to begin construction as the Sakhalin-Vladivostok is completed. Khabarovskiy Kray Governor Ishayev expressed concerns that the new pipeline may disrupt supplies to his region.

A Pipeline to Asia

2. Alexander Ananenkov, deputy chairman of Gazprom's Management Committee, announced at the Far Eastern Economic Forum in Khabarovsk that his company plans to construct a new pipeline from Sakhalin to Vladivostok that will help provide natural gas to Asia-Pacific markets. The pipeline is scheduled for completion in the third quarter of 2011 and will likely connect with the trans-Korean gas pipeline, should that project come to fruition (reftel).

3. Ananenkov stated that the pipeline will initially be supplied by gas from the Sakhalin I and Sakhalin II projects. It will reach full capacity once gas production at Sakhalin III begins in 2016 and the Chayanda gas field in Yakutia is fully operational. Exxon's Sakhalin I project has estimated recoverable reserves of 485 billion cubic meters of natural gas, Gazprom-controlled Sakhalin II holds 500 billion cubic meters of natural gas, and Sakhalin III's Sea of Okhotsk reserves hold more than 900 billion cubic meters.

Governor: What About Us?

4. Khabarovskiy Kray Governor Viktor Ishayev has expressed concern about the plan. The region currently holds a contract which commits Gazprom to providing 2.5 billion cubic meters now and 4.5 billion starting in 2010. Ishayev questions the overall production capacity of the Sakhalin facilities, and has expressed concern that Gazprom may divert promised supplies to other markets including Primorye and Asia. Gazprom has stated that once all three Sakhalin projects and Chayanda are online, capacity will even exceed demand.

5. Natural gas to Khabarovskiy Kray industry is currently supplied through an existing pipeline that runs from Sakhalin through Komsomolsk-na-Amure to Khabarovsk. That pipeline was built by and had been owned by the Kray until 2006, when Gazprom paid 10.4 billion rubles to take it over. The old pipeline will continue to operate together with the new one, though Gazprom says it is in need of renovation.

¶6. Also at the Economic Forum, State Duma Chairman Boris Gryzlov suggested future expansions to the project. He proposed that once the pipeline has made its way to Vladivostok in 2011, it should be continued to other regions, such as Amur, Magadan, and Jewish Autonomous Oblasts and Kamchatskiy Kray. He went on to say that "despite the West's disinformation campaigns against us, Russia remains a reliable partner in delivering energy resources to the world."

Comment

¶7. The new project should help Russia increase natural gas supply to its Asian partners. Once the pipeline achieves full capacity, there should be enough gas to supply both the domestic and Asian markets, as Gazprom contends. To do so, however, would require actually getting the Yakutia field hooked into the pipeline and will be a difficult and lengthy process. If supply limitations lead to conflict between Governor Ishayev and Gazprom, the Khabarovsk region is unlikely to win.

BENJAMIN